

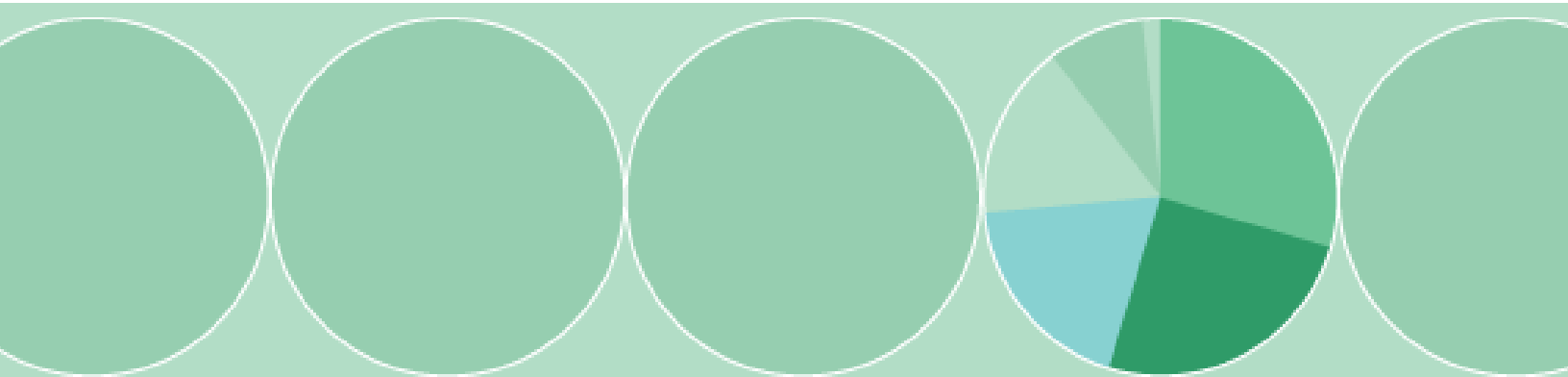


WHERE KNOWLEDGE IS POWER

IBISWorld Industry Report

March 25 2010

DVD, Game & Video Rental in the US: 53223

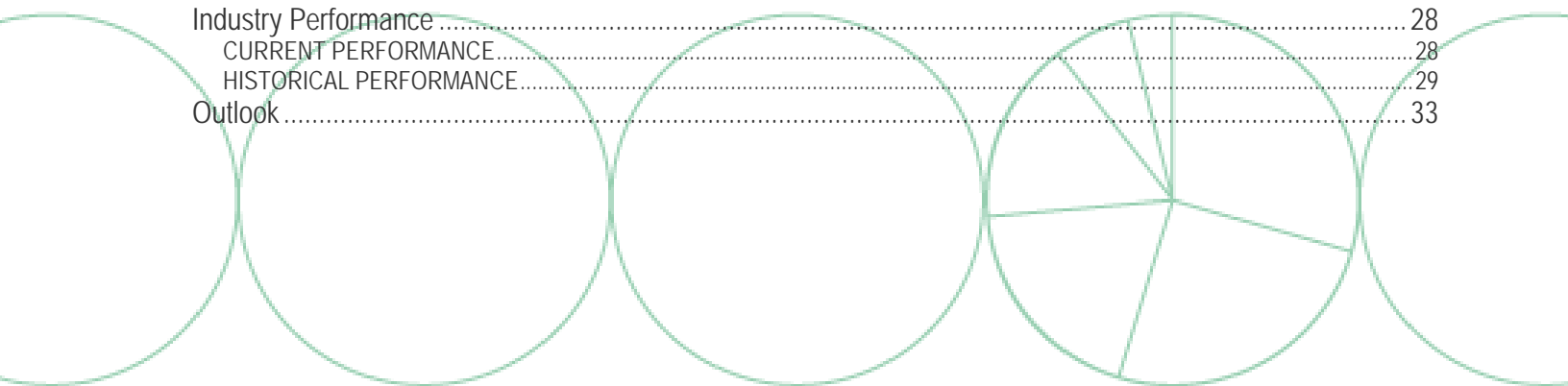


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Industry Definition

This industry includes companies that rent DVDs, Blu-ray discs and video games that can be used on home-based electronic equipment. Many stores also sell beverages, confectionery and some film-based souvenirs, such as posters.

ACTIVITIES (PRODUCTS AND SERVICES)

The primary activities of this industry are:

- Renting DVDs and Blu-ray discs
- Computer video game rental
- Video game rental
- DVD rental stores
- Blu-ray rental stores


The major products and services in this industry are:

- DVDs rental
- Prerecorded video cassette tapes rental
- Pre-rented videos and DVDs
- New videos and DVDs
- Video, DVD and games equipment rental
- Other goods and other revenue

SIMILAR INDUSTRIES

Industry:  45122 - Record Stores in the US

Description: Retailers of a range of prerecorded music items such as video tapes, compact discs (CDs), vinyl and DVDs are found in this industry.

Industry:  51212 - Movie & Video Distribution in the US

Description: This industry distributes theatrical motion pictures and videos.

Industry:  53221 - Consumer Electronics & Appliances Rental in the US

Description: Companies in this industry rent video recorders and players.

DEMAND & SUPPLY INDUSTRIES

 51212 - Movie & Video Distribution in the US

Key Statistics

INFLATION ADJUSTED (CONSTANT) PRICES

	2006	2007	2008	2009	2010	
Industry Revenue	*9,471	*9,154	*8,769	*8,225	*7,839	\$Mil
Industry Gross Product	*4,583	*4,468	*4,258	*4,003	*3,863	\$Mil
Number of Establishments	*19,364	*18,473	*18,048	*17,633	*17,369	Units
Number of Enterprises	*11,352	*10,894	*10,353	*10,146	*10,024	Units
Employment	*139,147	*131,633	*127,684	*123,853	*121,376	Units
Exports	--	--	--	--	--	
Imports	--	--	--	--	--	
Total Wages	*1,922	*1,859	*1,820	*1,783	*1,764	\$Mil
Domestic Demand	NC	NC	NC	NC	NC	\$Mil

REAL GROWTH

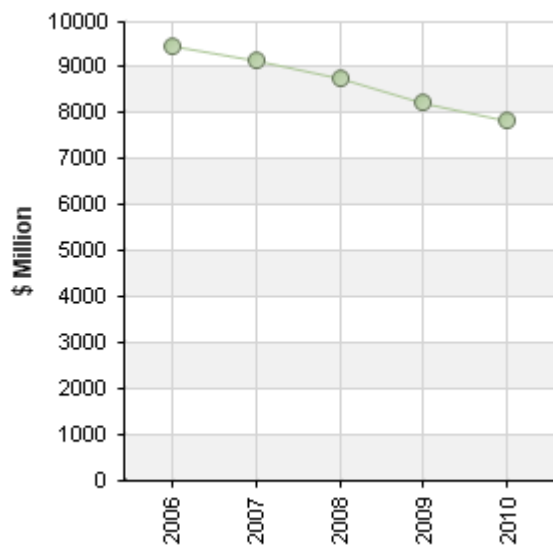
	2006	2007	2008	2009	2010	
Industry Revenue	*-5.4	*-3.3	*-4.2	*-6.2	*-4.7	%
Industry Gross Product	*-5.0	*-2.5	*-4.7	*-6.0	*-3.5	%
Number of Establishments	*-5.0	*-4.6	*-2.3	*-2.3	*-1.5	%
Number of Enterprises	*-5.0	*-4.0	*-5.0	*-2.0	*-1.2	%
Employment	*-5.0	*-5.4	*-3.0	*-3.0	*-2.0	%
Exports	NC	NC	NC	NC	NC	%
Imports	NC	NC	NC	NC	NC	%
Total Wages	*-3.6	*-3.3	*-2.1	*-2.0	*-1.1	%
Domestic Demand	NC	NC	NC	NC	NC	%

RATIO TABLE

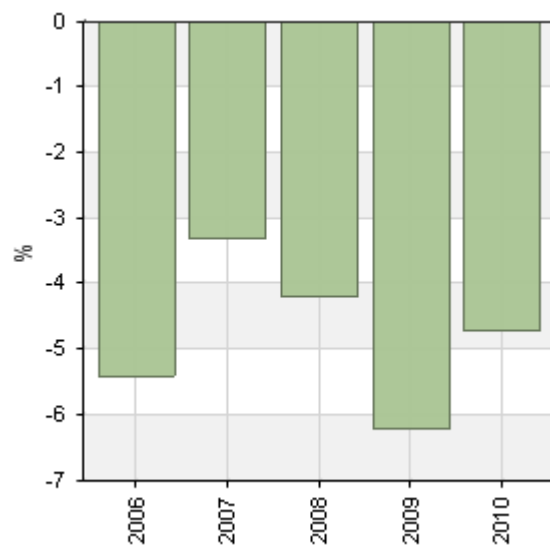
	2006	2007	2008	2009	2010	
Imports share of Domestic Demand	NC	NC	NC	NC	NC	%
Exports Share of Revenue	NC	NC	NC	NC	NC	%
Average Revenue per Employee	*0.07	*0.07	*0.07	*0.07	*0.06	\$Mil
Wages and Salaries Share of Revenue	*20.29	*20.31	*20.75	*21.68	*22.5	%

GRAPHS

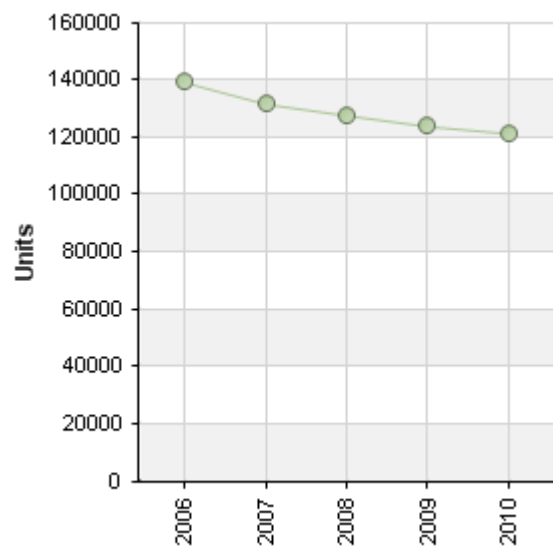
Revenue



Revenue Growth Rate



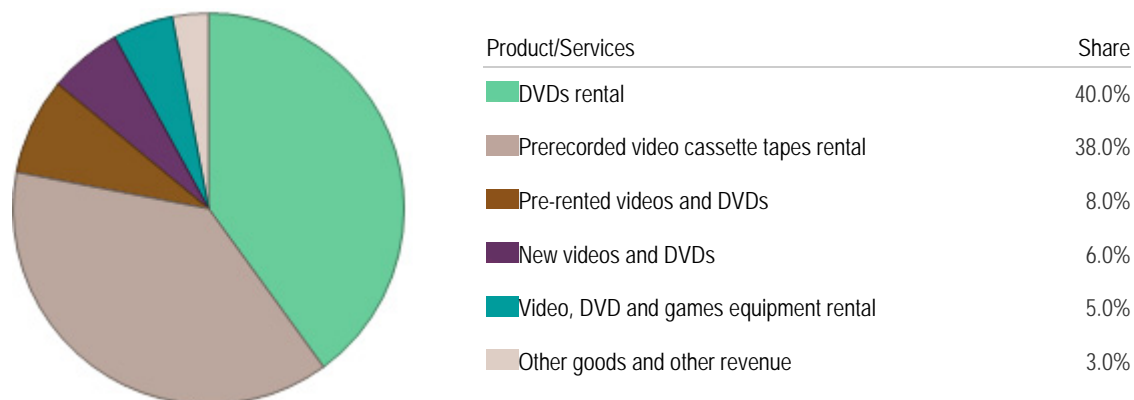
Employment



Note: Unless specified, an asterisk (*) associated with a number in a table indicates an IBISWorld estimate and references to dollars are to US dollars.

Segmentation

PRODUCTS AND SERVICE SEGMENTATION

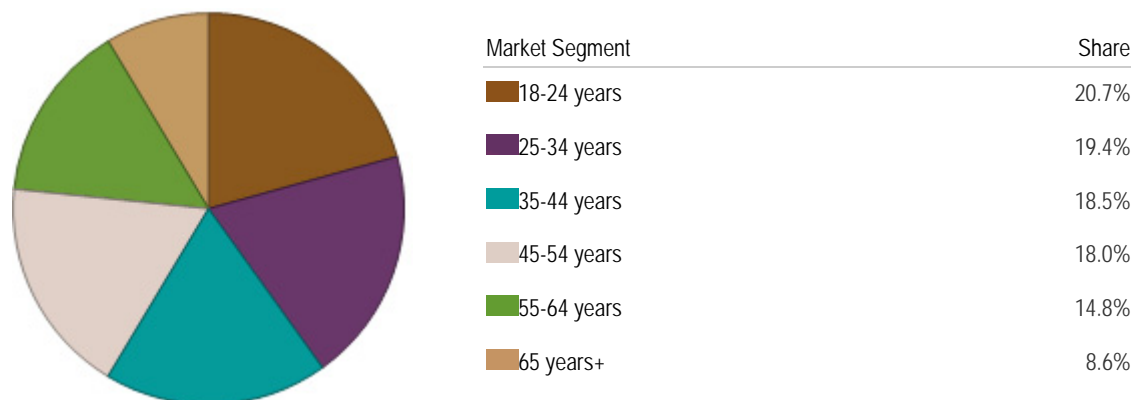


Operators in this industry generate most of their revenue from the rental and sale of DVDs and, to a lesser extent now, from video cassettes. Revenue from games rentals is increasing although from a low base.

The most significant change in industry product has resulted from growth in DVD rentals and purchases which have been assisted by rapid expansion of DVD player sales and penetration of such players in TV households. These trends have translated quickly into DVD rental and sales compared with demand for video cassettes which has declined.

According to the Motion Pictures Association of America (MPAA), DVD player penetration in US TV households increased from 54 million in 2002 (or 50.6%) to 98.0 million in 2007 from a total of 112.8 million (or 98.0%). Such changes have affected rental and sell-through figures for DVD and VHS formats. Generally lower wholesale prices of DVDs have also assisted growth in DVD rentals and sales, subsequently influencing relatively higher, albeit falling, margins on rentals.

MAJOR MARKET SEGMENTS



The nature of this industry is to rent and sell DVDs, games and videos directly to end users. Therefore, the major market for this industry is households, but particularly those aged 55 years or younger. This is largely due to the necessity to purchase new DVD or Blu-ray compatible equipment as well as the obvious problems in connecting and operating these systems, with multiple controls, which older households tend to shy away from.

Due to high household penetration rates with multiple units of video cassette recorders and DVD players, and now increasing Blu-ray compatible equipment, nearly all households provide a market for the services provided by this industry. Video rental stores tend to be more attractive to families and younger people including teenagers and young adults.

In 2007, 78.8% of TV households owned a VCR. This figure reached its maximum penetration rate of 90.8% in 2003 and subsequently fell thereafter. In 2003, 43.1% of TV households owned a DVD player which will grow to an estimated 98.0% of household ownership by 2009.

INDUSTRY CONCENTRATION

Concentration in this industry is medium

IBISWorld estimates that in 2010, the top four players in this industry will account for under 70% of available market share, indicating a medium level of concentration. Movie Gallery is again being subjected to significant reorganization as part of its Chapter 11 Bankruptcy Protection application (see Major Companies section).

Blockbuster Inc. is undoubtedly the dominant player in this industry accounting for an estimated 36% of total revenue from its activities in the US only. Movie Gallery became the second largest operator after it acquired Hollywood Entertainment Corporation in April 2005 with a share, taking into account the reorganization processes which commenced in February 2010, of about 21.3% of total industry revenue. Netflix Inc accounted for an estimated 15.8% share of industry takings.

According to the most recent US Census Bureau data, the employer establishment structure comprised mainly two dominant players and various small businesses. An estimated 61.4% of the smaller operations employed less than nine people.

The medium level of industry concentration is expected to fall in the near future, particularly influenced by the operational restructuring of both Blockbuster and Movie Gallery, as well as from continuing closure of independent stores.

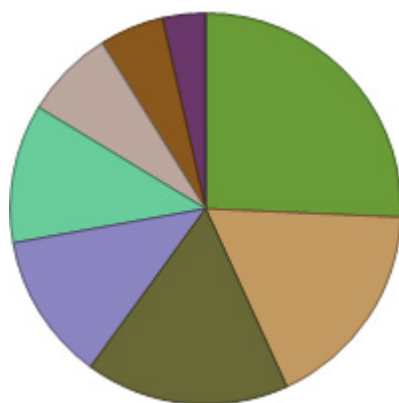
Distribution of employer establishments by employee size

Number of employees	Units Establishments	Percentage
1-4	5265	28.1
5-9	6244	33.3
10-19	6843	36.5
20-49	352	1.9
50-99	26	0.1
100-249	7	0.0
250-499	2	0.0
Total	18739	100.0

Source: US Census Bureau County Business Patterns

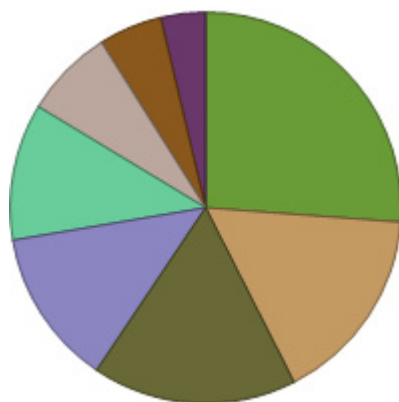
GEOGRAPHIC SPREAD

Year: 2009
Employment



Region	Units
Southeast	39,446.0
West	26,878.0
Great Lakes	25,819.0
Mid-Atlantic	18,729.0
Southwest	17,643.0
Plains	11,413.0
New England	8,169.0
Rocky Mountains	5,468.0

Establishments



Region	Units
Southeast	4,903.0
West	3,067.0
Great Lakes	3,162.0
Mid-Atlantic	2,424.0
Southwest	2,120.0
Plains	1,387.0
New England	982.0
Rocky Mountains	694.0

Note: "Far West" and "Mid East" have been changed to "West" and "Mid-Atlantic," respectively, in some parts of this report

Industry employment and establishment numbers are spread alongside the share of the US population across the country.

TV ownership is too broad a category to base the geographic spread of this industry as over 97% of US households own at least one television set. The ownership of VCRs was previously a good indicator of business locations across the country although penetration of these machines in TV households fell in 2007 to 78.8% due to a sharp increase in DVD player ownership which grew to 86.9% in the same year.

Household incomes are also important in determining the location of industry establishments, particularly in terms of DVD purchases. Rising ownership numbers of TVs with DVD facilities translates to demand relating more to population size which is the key indicator of this industry's geographical spread.

The geographical concentration of DVD, game and video rental stores is not expected to change in the near future.

Share of population by region

Region	Percentage Population
New England	4.9
Mid-Atlantic	16.2
Great Lakes	15.8
Plains	6.7
Southeast	24.7
SouthwWest	11.4
Rocky Mountains	3.3
West	17.0
Total	100

Source: US Census Bureau

Market Characteristics

MARKET SIZE

Changes in technology tend to pause profits for this industry. As movies become more readily available online (both legally and illegally), from cable TV providers and the sell through of DVD movies, prices will fall from competing retail outlets and adversely affect profitability of rental stores. Movie releases have been weak over the five years to 2010 and this too has hindered industry demand and revenue. For 2008, according to VB and based on data obtained from the major studios, consumer spending from all retail and other outlets, on DVD and Blu-ray discs fell 5.7% to \$21.7 billion. This related to the economic recession and the associated spike in unemployment. Also, Adams Media Research indicated that both digital rentals and purchases of films and TV shows over the internet rose 73% to \$488 million. Finally, Rentrak indicated that DVD rentals from stores, kiosks and online was flat at \$7.6 billion, but rental transactions actually rose 1.8% to 2.6 billion, which indicated increased price-based competition. To counter these trends and competitive forces, major company Blockbuster has purchased the major movie download firm, Movielink LLC, and now delivers rental DVDs by post. It has also boosted its in-store merchandising programs to increase revenue. As HD Blu-ray movie players rise in popularity, this industry must begin to stock more than one format to rent which will increase industry purchase and stock-holding costs. Confirmation that during 2009 the industry's performance worsened as a result of the recession is indicated by the following. Digital Entertainment Group estimated that over the first half year, total household consumer entertainment expenditure on rentals and sales of DVDs and Blu-ray products, but also on digital downloads and cable/satellite VOD services, fell 3.9%. However, while Blu-ray and DVD rentals rose, sales of these products moved in the opposite direction. A further indication of recent industry performance is highlighted by Rentrak which counted 21,157 chain and independent rental stores in 2006, but which subsequently fell to 14,235 in 2008 (down a whopping 33% in just two years). This was led by Blockbuster (with over 600 store closures), Movie Gallery/Hollywood (more than 1,600 store closures), with over another 4,000 independent and other rental outlet closures. Further, in February 2010 Movie Gallery filed for Chapter 11 reorganization, which immediately led to the closure and liquidation of 760 stores (out of a former total of 2,666) in the US. Its Canadian operations were not included as part of the Chapter 11 application. However, at the end of this process it will still have 1,906 stores operating under its brands; with 1,111 Movie Gallery, 545 Hollywood Video and 250 Games Crazy locations. But more stores may have to be closed as the Chapter 11 process proceeds. The main causes behind this filing have been cited as the recent economic recession and competitive forces from both within and outside of the industry. The subdued recovery in activity from the 2009 economic recession and increasing competition from external outlets and digital media technology are key factors expected to influence a further downturn in industry revenue for 2010. It is anticipated that the industry will generate revenue of \$7,839 million, representing a real decline of 4.7% compared with the previous year. Due to continuing industry consolidation anticipated for 2010, the industry is expected to comprise about 10,024 enterprises and operate 17,369 establishments which both represent declines over 1% or more. About 121,376 employees will work in the industry representing a fall of 2.0% over 2009, and wages paid are expected to decline in real terms by 1.1% to \$1,764 million.

LINKAGES

Demand Linkages

None

Supply Linkages

 51212 - Movie & Video Distribution in the US

Film distributors supply videos and DVDs for sale and rental by video stores.

DEMAND DETERMINANTS

A number of factors can stimulate or reduce demand for services supplied by this industry. The underlying determinants of demand for the rental and purchase of DVDs include economic conditions, changes in technology, consumer needs, movie releases and issues of piracy.

Household disposable incomes

Changes in real household disposable incomes can result from fluctuating interest and tax rates. During the current period, high gas prices and general employment growth have also influenced disposable incomes. Consumer expenditure on discretionary items like DVDs is facilitated by such economic trends and when disposable incomes are low, frequent DVD rentals and purchases are unlikely. It is estimated that middle and high income households are the greatest spenders on rented and purchased DVDs as their discretionary spending abilities tend to be higher than the average household.

Technological change and prices

The merge from VCRs and cassettes to DVD players, discs and recorder technology has increased demand for DVD rental and sales. DVD units shipped for sale increased from 768 million in 2003 to over 1,084 million in 2007. This transition has been assisted by the falling price of DVD players and declining costs of DVDs. The DVD player penetration of TV households increased from 0.3% in 1997 to 38.8% in 2002 and to 98.0% at the end of 2007.

As technological change becomes more accepted by households, the relative price of DVDs for rental and purchase has decreased. These falls will stimulate demand for industry services as consumers become more able to afford to rent and buy DVDs, games and videos.

Blockbuster movie releases and piracy

Blockbuster releases to movie theaters flow through to increased demand from households to rent and purchase these movies. During the current period, patterns have become evident of consumers wanting to establish a library of their favorite movies on DVD as collectible items. However, the increasing availability of pirated new release and other movies will adversely affect this source of demand as the rental and purchase of DVDs and videos becomes less of a necessity for consumers who are able to gain such products for free.

DOMESTIC AND INTERNATIONAL MARKETS

Domestic and International Markets Exports

Exports in this industry are low
Exports in this industry are steady

Domestic and International Markets Imports

Imports in this industry are low
Imports in this industry are steady

Domestic and International Markets Analysis

This industry mainly services households in the domestic market. Dominant player Blockbuster has expanded internationally owning 8,000 video stores globally, although some of the firm's overseas operations have been sold in Brazil and Australia.

BASIS OF COMPETITION

Competition in this industry is high
Competition in this industry is increasing

This section outlines the factors which influence the level of rivalry between operators in an industry (internal competition) and operators in other industries (external competition). Detailed analysis indicates that this industry is subject to a high level of competition which is increasing. Industry participants face competitive challenges both internal and external to the industry relating to various factors including new technology, price-based competition and product diversity.**Internal competition**

Many stores compete on rental prices. Some companies have also begun offering product breadth, depth and diversity as well as improved customer services. Such initiatives include promoting new releases through television advertising, holding competitions for customers and offering special deals to loyal hirers. Discounted rental prices may also be offered to customers on days of the week that are typically experience low demand. Some companies provide extended loan periods on new release DVDs, games or videos. Over the five years to 2010, large franchises have attempted to distance their operations from competing solely on price by choosing more competitive geographical locations and providing larger stores with easier access to facilities.**External competition**

Industry operators benefit from agreements with major motion picture distributors relating to releasing films for rental directly after they feature in cinemas. However, this strategy is becoming more widely adopted by distributors for major blockbuster movie releases (in both video and DVD formats). These distributors offer films for sale to a broader range of retailers at the same time industry operators are offering them for rent. This trend has diminished the advantages previously enjoyed solely by stores in this industry. Releasing movies to video rental stores can only vary between 30 days and 90 days prior to the film being released to pay-per-view operators on cable or satellite TV networks. The majority of rental income gained by industry operators is typically received within four weeks or less of the release date. Department stores, supermarkets, music stores and other retailers are now selling DVDs which also poses a great threat to industry participants.**Consumer discretionary expenditure**

This industry competes for a share of discretionary spending of consumers that they allocate to leisure and entertainment. Services provided by this industry may be considered as substituting in-home entertainment for out-of-home activities, such as movie-going, given the cost of renting a movie for viewing by a family or group of friends compared with individually paying to see a movie. Direct competition includes other consumer entertainment goods such as compact discs (CDs), books, personal computer software, computer games and time spent on the internet.**Competitive technology**

The emergence of another significant and more direct competitor has occurred over the current period from digital cable and satellite networks offering a multitude of channels and programming. Video-on-demand services offered by cable and satellite networks also pose a threat to industry operators as renting films become unnecessary for subscribers receiving this service. In 2007, the number of subscriber households with access to video-on-demand was 31.0 million which represented a penetration rate of around 27.5% of TV households, increasing significantly from 8.8% in 2003. A number of on-line services offer direct mail services for DVD movies with no borrowing time limits or late penalties.

LIFE CYCLE

Life Cycle Stage

The life cycle stage is decline

Life Cycle Reasons

- There is significant price-based competition for companies that rent DVDs, games and videos
- Increased competition is coming from external sources, particularly digital cable and satellite operators that offer video-on-demand services
- Aside from internal competition for video, DVD and game sales, other retailers are threatening this industry such as department stores
- Significant consolidation is occurring among major industry operators
- The internet is making movies more readily available for download via sales and rental sites which jeopardizes industry performance

Life Cycle Analysis

This industry is declining as indicated by recent falls in real industry revenue and profitability, alongside continuing trends of industry consolidation and store closures. Competition both internal and external to the industry is a main factor contributing to the decline of this industry as players continuously struggle to remain up to date with their rivals in order to maintain market share.

Significant price-based competition exists for industry players on new sell-through releases and other stock titles. Trends of increasing competition from major retailers are adding to the competitive environment. These include discount and department stores that sell major new releases, particularly DVDs. In 2003, Wal-Mart achieved revenue growth of 27% and the megastore's market share of sell-through was almost equal to the combined shares of this industry's largest participants, Blockbuster and Movie Gallery.

Movie distributors have implemented changes in their release strategies, particularly on the sale of blockbuster movies from a broader range of retailers. Such amendments include films being sold at the same time they are released for rental. This is contributing to a loss of industry revenue for industry players while more frequent occurrences of movie piracy add to the decline.

Competition has also emerged from increasing movie hire via internet and postal-linked services. Digital cable and satellite operators are offering multiple channels to subscribers that compete directly with DVD and video rentals such as video-on-demand services.

Industry Conditions

BARRIERS TO ENTRY

Barriers to entry in this industry are high
These barriers are steady

Factors that may prevent or limit a new operator from entering this industry include factors such as the dominance of existing players in the market, establishing supply agreements and rising competition from other forms of digital media. Analysis indicates that barriers to entry into this industry are subsequently high and steady.

Market domination

One of the most significant barriers to entry into this industry is the market dominance of the participants. The top four companies are expected to account for under 70% of total industry revenue in 2010. This power can place new entrants at a competitive disadvantage in accessing suitable store locations and movie product. However, one of the top three companies Movie Gallery is currently again under re-organization after applying for Chapter 11 Bankruptcy Protection in February 2010, and has announced that it will close many hundreds of its stores. Despite this intimidation, niche opportunities do exist for operators in specific markets or geographical areas.

Movie supply agreements

Another significant barrier to entry relates to company players having established supply agreements with a number of movie distributors for newly released films. Some movies may be tied for release to certain video chains only which will make growth conditions difficult for new industry players.

Competitive environment

Emerging new technology allows movies to be downloaded from the internet for viewing on PCs or on televisions. Some major operators are beginning to provide these services, although new technologies are significant external threats to the industry as operators from other industries may also offer the same product at competitive rates.

Delivery of products

New rental DVDs can be delivered by post and this is becoming an increasing trend. Other industries external to DVD, game and video renting may also be in a position to offer such services which is another obstacle new entrants must face.

There is a need for industry players to be appropriately located, preferably at a highly populated site in a retail strip or mall with easy access and parking. Firms must also be able to extend trading hours when required and this may also prove difficult for new participants depending on staff arrangements and budgets.

TAXATION

The industry is generally affected by State taxes which apply to retail sales and the hire or rental of equipment, including DVDs and games. This rate can vary by State in the range of between 3% and 6% of sale value.

INDUSTRY ASSISTANCE

The level of Industry Assistance is medium

The trend of Industry Assistance is steady

There are no specific tariffs for this industry

Industry players that establish links with movie distributors will be assisted in remaining competitive with external rivals. Companies may also benefit from becoming members of the Video Software Dealers Association (VSDA). The main assistance received by this industry relates to agreements made with movie distributors. These deals indicate that video stores are next to receive movie releases after a film has run in the cinemas/theaters and especially before cable, satellite and broadcast TV are able to offer them to consumers. There can sometimes be a lead time of up to three months before movies are released to cable and broadcast TV after video stores have obtained them, however this time frame is progressively becoming shorter. Over the current period, movie distributors have begun releasing blockbuster movies for sale to other retailers simultaneously with the release of movies for rent and sale at video stores. Video Software Dealers Association is a not-for-profit, international trade organization and represents around 1,900 companies throughout the US and Canada and some other countries. Membership to this group is open to video and video game retailers, home video divisions of major independent motion picture studios and other home entertainment related industries. It assists members by conducting market research, monitoring consumer trends, providing a regular e-newsletter, assisting with promotional material, developing advertising ideas, direct mail programs and issuing gift certificates.

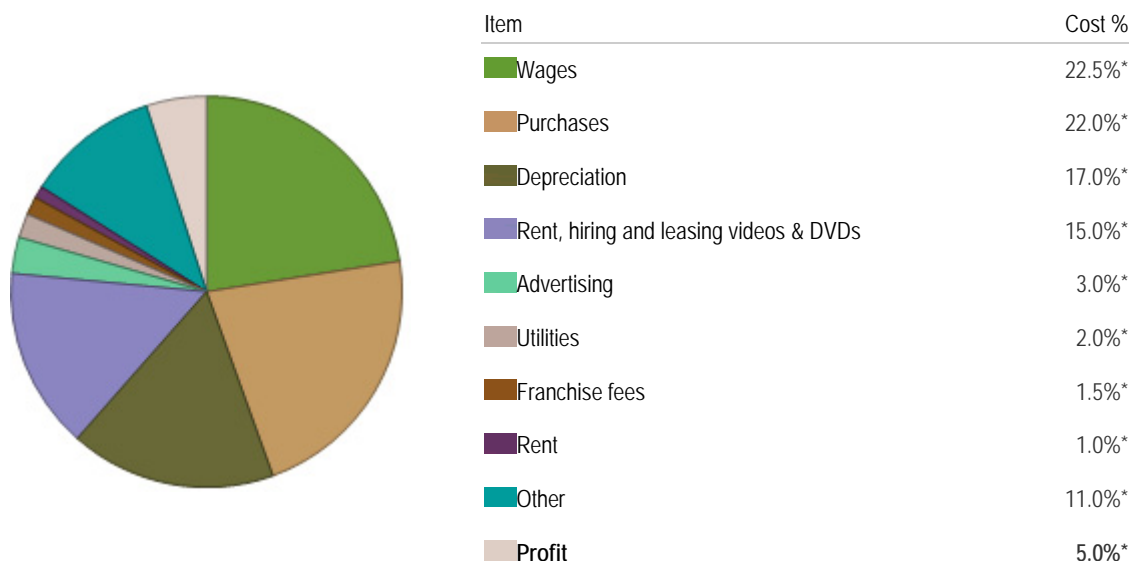
REGULATION AND DEREGULATION

The level of Regulation is light
The trend of Regulation is steady

IBISWorld analysis indicates that this industry is subject to a light and steady level of regulation. The industry is subject to Copyright provisions on the copying, rental and sale of DVDs. However, pirating movies is a significant problem for some industry participants due to its impact on sales and revenue.

COST STRUCTURE

Year: 2010



Profit margins are generally small and decreasing for this industry due to increased competition and a reduction in demand for renting DVDs, games and videos. Operators generally have a large stock holding of DVDs, especially for new movies which are released to video stores by distributors on a weekly basis. There is some hold back of major releases in order for these to coincide with holiday periods when demand is high. The largest costs incurred by industry players are therefore related to the purchase, rental or leasing of DVDs. The relative cost of purchasing DVDs for hiring and sale is declining. Furthermore, less display and storage space is required for DVDs (relative to the former VHS format) and the need to stock HD Blu-ray format discs is expected to continue increasing in future. This trend offers firms the potential to reduce average store sizes over time and save on rentals and other property related overheads. **Depreciation and wages** Another significant cost relates to the rapid depreciation of the stock value of past releases, as multiple ex-rental copies are sold at significantly discounted prices. The value of other stock holdings also tends to decline compared with initial purchase prices. There is still a high wage component associated with stock ordering, stock display and customer service elements of DVD, game and video rental businesses.

CAPITAL AND LABOR INTENSITY

The level of Capital Intensity is high

- Companies must invest high levels in video cassette and DVD stock holdings
- A significant input of labor must be funded for firms to serve customers, order stock and replenish shelves

For every dollar spent on wages in this industry, about \$0.81 cents is spent on the use and replacement of buildings as well as the depreciation of new DVDs and games stock after rental. This industry is subsequently deemed labor intensive. The largest capital costs for industry participants relate to purchasing and renting DVDs. Rapid depreciation of stock values of past and new releases also exists. For example, Blockbuster Inc. repays the cost of its library over periods ranging from three to 12 months at an estimated residual value from \$2 to \$5 per unit, depending on the category.

Changes in consumer demand may impact on the carrying value of a library and on rental margins. This was particularly the case during the changeover from VHS to DVD. Multiple ex-rental copies are sold at a significantly discounted price and the value of other stock holdings declines compared with initial purchase prices after a short time period. Contributing to the labor intensity of this industry is a high wages component associated with stock ordering, stock display and all elements of customer service.

TECHNOLOGY AND SYSTEMS

The level of Technology Change is high

IBISWorld analysis indicates that this industry is experiencing high technological change. Major companies are experimenting with different methods of delivering titles to consumers, utilizing a broad range of possibilities on the internet and incorporating their operations with various types of movie viewing formats. **Web downloads and viewing** It is now legal for consumers to download movies from approved and legal sites onto PCs from the internet. This is another technology advancement being utilized by industry participants, particularly NetFlix. Over the current period, consumers began using special set-top boxes to view downloaded films on television screens. Major operators are also offering DVDs to rent over the internet. Online orders are delivered by post and are offered to consumers for extended rental periods with no penalties applying for late returns. **Computerized stock control**

The majority of rental outlets in this industry use computer technology that allows for customer controls, stock control and title rental analysis. These systems are used to increase efficiency of operations and the majority of stores use them. Bar-coding and scanning technology is used to record which customer has hired which DVD and to control stock losses.

Computer programs are also available that facilitate the ordering of new releases from distributors. **HD Blu-ray format** Since early 2008, Blu-ray is now the main high definition DVD standard used by this industry as many major Hollywood studios have agreed to adopt it (against alternate HD-DVD technology). This affects standard definition DVD holdings by operators and influences a need to hold conventional DVD and Blu-ray DVD product. This has initially occurred only for new releases and is increasingly moving to more stock as households more frequently purchase Blu-ray players and recorders. **Self help vending machines/kiosks**

A limited number of DVD titles may be available for rent in stores from self help machines which accept credit cards for payment.

INDUSTRY VOLATILITY

The level of volatility is medium

Medium revenue volatility in this industry is due to increasing levels of competition from other areas of leisure and entertainment. Movie distributors are selling blockbuster movie releases through various retailers at the same time a movie is released for rental and this trend is also contributing to the revenue volatility for this industry. Video-on-demand services offered by cable and satellite TV distributors are also fuelling significant industry competition which in turn contributes to fluctuating revenue.

GLOBALIZATION

The level of Globalization is low

The trend of Globalization is steady

Globalization measures the extent to which this industry operates on a global scale. The level of globalization is determined by examining operations of domestic participants in foreign markets and foreign players in the domestic market. This industry has a low level of globalization as a majority of companies are US owned and earn most revenue from domestic activity. DVD, game and video rental will be subject to a decreasing level of globalization in the future, particularly as some major companies sell their international operations to local companies. Despite industry major company Blockbuster Inc. having expanded internationally, there are no major foreign companies operating in this

industry and the firm continues to sell off its international stores. Local operators source their products from US film distributors that subsequently have links with both domestic and international film producers and distributors. Furthermore, a growing number of industries in the sector support internationally controlled operators.

Key Factors

KEY SENSITIVITIES

The key sensitivities affecting the performance of the DVD, Game & Video Rental industry include:

Competition from Substitutes - Cable Networks - DVD, Game & Video Rental

Video rental stores face competition from cable TV operators that sell new releases directly to consumers. Digital cable and satellite operators may offer a wide variety of channels and programming such as video on-demand which replaces the need for renting from retailers in this industry.

Competition from Substitutes - Department Stores - DVD, Game & Video Rental

External industry competition can come from retailers that sell major new releases, particularly DVDs, such as department stores.

Leisure and Recreation - Leisure Time Availability

Description: The availability of leisure time.

Those with increased leisure-time availability are generally more likely to rent movies, television shows and/or video games from companies in this industry.

Per Capita Disposable Income

Description: The level of and/or movements in real per capita disposable income.

This industry is affected by changes in real household disposable incomes, which can be influenced by changes in the rate of growth of employment as well as interest rates and tax rates.

KEY SUCCESS FACTORS

The key success factors in the DVD, Game & Video Rental industry are:

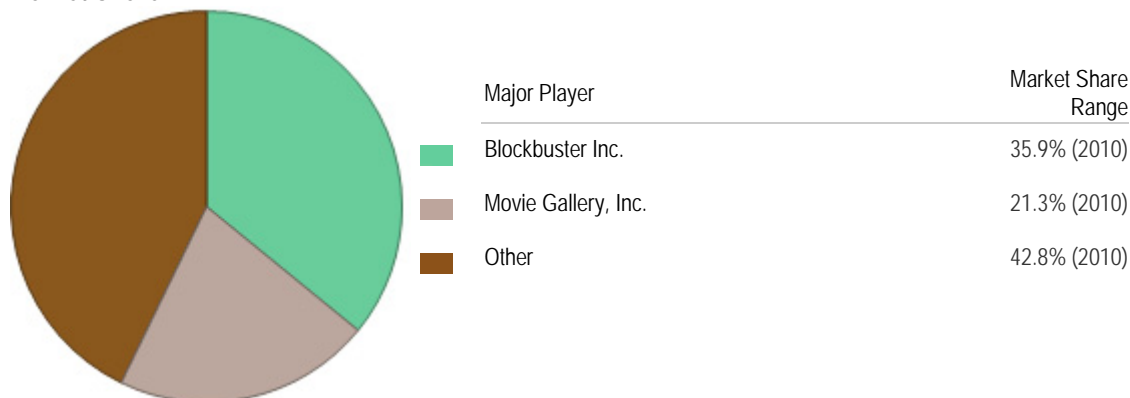
- **Ability to control stock on hand**
Companies that are able to control purchases of new releases in video cassette and DVD format as well as existing stock levels (titles and numbers) will be successful.
- **Access to a multiskilled and flexible workforce**
Hiring people that are willing to work shifts and on a casual basis will be beneficial as demand tends to vary on a daily and yearly basis (peaking on Thursdays, Fridays and Saturdays as well as during holiday periods).
- **Being part of a group buying, promotion and marketing scheme**
Companies that are part of a group scheme will allow for hassle free access to new major movie release titles.
- **Selling and renting from high profile outlets**
Working from a high profile site in an area which has easy access, ample parking facilities and allows for extended trading hours over seven days, will give companies a competitive advantage.

- Supply contracts in place for key inputs
Having movie supply contracts in place and guaranteed will ensure prompt delivery of products to consumers.
- Ability to effectively manage debts from late returns of rental product
Firms must be able to manage debt accumulated from people who do not return video cassettes, games and DVDs on time. This may be done by issuing late fines.
- Ensuring pricing policy is appropriate
Making sure that company prices are competitive is a key success factor in this industry.

Key Competitors

MAJOR PLAYERS

Market Share



PLAYER PERFORMANCE

Blockbuster Inc.

Brand/Trading Name(s): Blockbuster Video

Market Share: 35.9%

Blockbuster is a publicly listed company. It is the largest operator in this industry and until late-2004 was 81% owned by Viacom Inc. In February 2004, Viacom announced that it would float its total stake of Blockbuster to shareholders and this subsequently occurred later that year.

Operations commenced in 1985, and through both organic growth and acquisitions had more than 1,500 stores by 1990. In 1992, it acquired Cityvision in the UK which comprised of 875 stores.

The company had gradually phased down store space reserved for video cassette stock holdings in favor of DVDs and established a marketing deal with DirecTV, a digital satellite subscriber service, in attempt to sell other products rather than just renting videos.

More recently as demand for sales and rental of DVDs has slumped, Blockbuster has undertaken significant store rationalization. It has opened more DVD rental kiosks.

In March 2010, the company warned that it may have to file for Chapter 11 bankruptcy protection as it struggles with its accumulated debt and fierce industry competition.

Financial performance

During 2009, total revenue was estimated to have fallen significantly, but the net loss was reduced, due to a similar reduction in operating expenses, particularly in inventory costs and advertising, and lower interest costs. It continued to be affected by poor DVD title releases from studios. However, it still managed to increase average rental rates. Overall, same store sales fell with a decrease in domestic same store rentals as well as a decline in same store product sales revenue.

The company reported that its existing credit facility had been extended to September 2010.

For fiscal 2008, total revenue fell. However, domestic same store sales increased in each quarter during the year. Overall, a 6.2% rise in same store sales was reported, compared with a fall of 6.9% in 2007. Rentals revenue rose 1.2% on a same store basis, but with a 37.4% rise in same store retail and merchandise and games related revenue. International same store sales fell 0.4%, with a 2.8% fall in rental revenue, but a 2.4% increase in merchandise sales. Global same store sales rose 3.9%. During fiscal 2007, Blockbuster sold its 72-store US-based Rhino Video Games chain to GamesStop Corp. A Brazilian franchisee sold its stores to Lojas Americanas including rights over 20 years for the use of the Blockbuster brand. The company also entered into an agreement which subsequently led to the sell-off of its stores in Australia to VideoEzy (a franchise operation with 518 stores). Prior to these arrangements, Blockbuster had about 8,000 stores globally.

In that year the company acquired movie download company Movielink LLC during the year which enabled it to gain access to one of the largest libraries of downloadable movies and TV content available.

For fiscal 2007, total revenue grew. Gains were made from the sale of Gamestation which were excluded from this figure, as were severance and lease termination costs. After considering these amounts, the company's total net loss increased to \$135.6 million.

The year 2007 was described as one of transition for the company, with financial stability established in the second half. It also took significant steps to grow its rental business, diversify revenue streams and broaden its channels of distribution. Overhead costs were reduced by an equivalent \$100 million for 2008, subscriber programs were repositioned and a renewed focus was given to store merchandise. Revenue grew from rental by mail services, albeit from a small base.

Revenue in fiscal 2006 declined mostly due to the closure of stores as the company sought to optimize its asset portfolio. Global same store revenue decreased 2.1%, however, revenue increased \$105.5 million from its on-line rental service when rental subscriber numbers nearly doubled to 2.2 million consisting about 2 million paying subscribers.

During the year, the company divested its Movie Trading Company locations and Movie Brands Inc. subsidiary store operations in Spain and Taiwan, together with a master franchise license to Webs-TV (the largest broadband TV operator in China).

In January 2005, the company introduced two-day rentals on new releases and weekly rentals on other stock. It also abolished most late fees on DVDs and video returns which had previously accounted for 13% of revenue. Conditions of the abolishment of fines indicated that rentals had a week goodwill period and if the rental had not been returned after this time, the product must be purchased by the customer based on the full retail price or value of the item with the price reduced to the value of the rental fees paid. If the product is returned within 30 days then the customer would receive a full credit, less a minimal restocking fee of around \$1.25.

In February 2005, the company made a takeover bid for Hollywood Entertainment in direct competition with another major industry operator, Movie Gallery. Blockbuster offered \$14.50 per share in cash and stock and valued the company at \$985 million. However, in April 2005, Movie Gallery won the bidding war, acquiring the company for \$1,250 million.

In fiscal 2004, CBC Corporation (formerly Viacom) announced that it intended to sell its 81% majority stake in Blockbuster to shareholders after numerous failed attempts to sell it to another company for a number of years. In June 2004, it initiated a stock swap that put Blockbuster in the hands of Viacom's shareholders.

Later in the year, demand for rental products weakened. However, over the year it achieved some revenue growth from new in-store game concepts and growth from Gamestation. Gross profits remained flat.

During 2003, Blockbuster announced that it planned to open 100-150 game stores within its US stores and another 50 internationally during 2003. These were to be totally integrated within the existing stores and brand.

In 2003, VHS rental revenue represented 31.7% of total revenue (compared with 49.1% in 2002). DVD rental income comprised 57.3% of total revenue (39.0% in 2002) and game rental was 11.9% (11.0% in the previous year). The rental margin was 70.0%, merchandise margin was 19.8% and gross margin was 59.6%. For the domestic market, same store revenue fell by 2.7% compared with growth of 4.9% recorded in 2002.

Blockbuster had 4,581 company-owned stores in the US by the end of 2003 and 2,389 international company-owned stores. Over 1,760 of these stores were franchised or joint ventures which equaled a total of 8,893.

Blockbuster - financial performance

Year	Million Dollars Revenue	% change Growth	Million Dollars Net Income	% change Growth
2004	6053.2	2.4	-1248.8	26.9
2005	5864.4	-3.1	-588.1	-52.9
2006	5523.5	-5.8	54.7	N/C
2007	5542.4	0.3	-73.8	N/C
2008	5290.0	-4.6	-374.1	406.9

Source: Annual Report

Movie Gallery, Inc.

Brand/Trading Name(s): Movie Gallery, Movie Beam, Hollywood Video, Games Crazy

Market Share: 21.3%

This company commenced operations in Alabama in 1985. In 1994, Movie Gallery listed as a public company and commenced acquiring owner operated video stores. After obtaining the New England Home Vision chain for \$32 million, it had nearly 860 stores. During 1997, the company engaged in store consolidation activity. BlowOut Entertainment was bought by Movie Gallery in 1999 adding a further 88 video stores to the company, most of which operated inside Walmart stores. The company purchased the Video Update chain of around 600 stores in 2001, and in February 2002 it acquired the Video Vault chain with 13 stores.

Movie Gallery closed 50 unprofitable Game Crazy stores after this acquisition phase and began re-branding Movie Gallery's 23 game stores under the Game Crazy brand. In March 2007, it acquired MovieBeam which provides movie downloads from most major studios via a set-top box.

The company filed for Chapter 11 Bankruptcy Protection in October 2007 with \$892 million in assets and \$1.4 billion in debt. It planned to convert \$400 million worth of debt into equity and to reorganize its other debts. Access was also obtained to \$140 million of debtor-in-possession financing arranged by Goldman Sachs. At that time, Movie Gallery operated 4,430 stores throughout the US and Canada, although its Canadian stores did not form part of the bankruptcy plan. The company planned to close about 500 unprofitable stores and in May 2008, it emerged from bankruptcy.

However, again in February 2010, Movie Gallery filed for Chapter 11 reorganization, which immediately led to the closure and liquidation of 760 stores (out of a former total of 2,666) in the US. Its Canadian operations were not included as part

of the Chapter 11 application. However, at the end of this process it will still have 1,906 stores operating under its brands; with 1,111 Movie Gallery, 545 Hollywood Video and 250 Games Crazy locations. But more stores may have to be closed as the Chapter 11 process proceeds. The main causes behind this filing have been cited as the recent economic recession and competitive forces from both within and outside of this industry.

Financial performance

Estimated revenue in 2010 is expected to decline to \$1,670 million, due to the Chapter 11 re-organization currently in progress.

In January 2008, the company announced that it would close "several hundred underperforming or unprofitable potential stores", as part of its debt re-organization plan. Results for the first quarter ended April 6, 2008, were released in early January 2009. It indicated that sales totaled \$555.7 million (\$414.6 million in rental revenue and \$141.1 in merchandise and other revenue). The net loss was \$38.9 million. As at April 2008, it operated 3,485 stores.

At the beginning of 2007, the company acquired MovieBeam, a near-on-demand movie service owned by Walt Disney Co, Cisco Systems and Intel Capital. The service is available in 31 major metropolitan areas and provides movies from major studios through set-top boxes. MovieBeam was planned to be merchandized through the company's Movie Gallery and Hollywood Video outlets.

In August 2007, the company indicated that its accumulated debt of \$1.1 billion since 2005 from the acquisition of Hollywood had led to negotiations occurring with its creditors. It filed for bankruptcy protection in October 2007.

For fiscal 2006, the rental margin was 69.5% and 26.4% for product sales and with an overall gross margin of 61.7%. The company generated 82.0% of revenue from rentals and 18.0% from product sales. Store operating expenses accounted for 50.3% of total revenue and general and administrative expenses of 7.2%.

During the first half of 2005, total revenue increased after the company purchased Hollywood Entertainment Corp. and VHQ, but fell on a same store basis. Revenue was adversely affected by a poor home video release schedule and weak game rental releases. The company had 4,700 stores located in all 50 US States, Canada and Mexico. The company closed its 50 unprofitable Game Crazy stores and began re-branding Movie Gallery's 23 game stores under the Game Crazy brand.

Revenue tended to increase after the purchase of Hollywood Entertainment Corp, although debt levels also grew significantly to finance the acquisition.

In February 2005, the company made a takeover bid for Hollywood Entertainment in direct competition with Blockbuster Inc. It obtained Federal Trade Commission approval prior to the bid by Blockbuster. Movie Gallery's offer was for \$13.25 per share or around \$900 million. In April 2005, Movie Gallery won with a bid of \$1,250 million that included \$862.1 million in cash and \$384.7 million in assumed debt. This gave it a total of 4,500 stores nationwide and total revenue of around \$2,570 million.

During fiscal 2004, the company expanded the number of Game Zone stores and the number of stores that offered extended rental periods of greater than one or two nights to customers. Some stores were amended to offer five night rental periods.

During 2003, the company planned to open between 175 to 200 new stores. In June, Video City sold two of its stores to M.G. Midwest Inc which was a wholly owned subsidiary of Movie Gallery Inc. Video City entered into an agreement to sell all but two of these remaining stores to Movie Gallery after a due diligence process was completed.

Movie Gallery increased the number of its rural stores and maintained stock of new rental inventory. The company benefited from investing in popular DVD catalog titles as well as a strong home release calendar and improved games rental revenue.

OTHER PLAYERS

Netflix Inc. Estimated market share: 2.1%

Netflix Inc has its head office in Los Gatos, CA. Through its internet site, the company offers over 90,000 DVD titles for rent to 12 million subscribers on a monthly fee basis and delivered by mail. Similar to most other rental by mail operators, it does not charge late fees. Netflix Inc offers nine subscription plans starting at \$4.99 a month with subscribers having access to over 100,000 DVD titles on a postage delivery basis. Streaming of titles can also occur on any PC, and replayed via Xbox 360, and PS3 and Wii consoles. It has over 100 shipping points. The company generates additional revenue through placing paid advertising from its e-mails and on its distinctive red DVD postal envelopes.

For fiscal 2010, total revenue grew strongly to \$1,670.3 million and net income was \$115.9 million, a margin of 6.9%. It had more than 12 million subscribers. It has more effectively linked onto the demand by consumers to access movies over the internet or by post and replay them on a range of household PC and game consoles.

At the end of the first quarter 2009, Netflix had about 10.31 million subscribers, with 98% paid subscribers, and also up 25% over the year and revenue rose 21%, due to this factor. Total revenue was \$1364.7 million in 2009.

In fiscal 2008, revenue rose as the company ended the year with a total of 8.67 million subscribers, up 23.4% over the year. The average subscriber acquisition cost was \$26.67, down from \$34.58 in 2007. There were, however, 1.4 million subscriber cancellations during 2008, up from 1.04 million in 2007. About 98% of subscribers were paid ones, with 226,000 accessing the service for free. The subscriber churn rate at the end of the year was 4.2%, up only slightly from 4.1% previously.

In 2007, the company experienced significantly increased competition from major player Blockbuster as it too entered the DVD rental by post market. Netflix also began offering a movie download and viewing by PC service and announced that an agreement was reached with LG Electronics. This provided LG-branded devices onto subscriber televisions to screen downloaded movies.

Netflix - financial performance

Year	Million Dollars Revenue	% change Growth	Million Dollars Net Income	% change Growth
2004	506.2	86.0	21.6	232.3
2005	682.2	34.8	42.0	94.4
2006	996.7	46.1	49.1	16.9
2007	1205.3	20.9	66.9	36.3
2008	1364.7	13.2	83.0	24.1
2009	1670.3	22.4	115.9	39.6

Source: Annual Report

Industry Performance

CURRENT PERFORMANCE

The more movies released for rent, the smoother this industry will run. As competition is usually based on price, and players face external pressures from other retail industries, major operators are attempting to expand by providing movie downloads over the internet and delivering rental DVDs by post. Embedded technology in digital cable and satellite TV products also threaten this industry as many of these providers now offer pay-per-view options, video-on-demand and personal video recorder services. Over the past five years the industry has continuously been adversely affected by increasing competition from other retail outlets and new digital media technology that incorporates movie download capabilities. DVD, game and video rental companies are forecast to generate revenue of \$7,839 million during 2010, representing a real decline of 4.7% compared with 2009.

Revenue spirals downward

The recession since late-2007 is continuing to impact significantly on household disposable incomes, especially as unemployment spiked during 2009. Subsequently, real industry revenue is expected to decrease at an average annual rate of 4.8% over the current period to 2010. The industry is also expected to continue to be adversely affected by trends of increasing competition from other video-related technologies such as internet-based movie download sites provided by external operators. Industry profitability is expected to continue to decline due to increasing competition.

The year ahead

The subdued recovery from the economic recession will result in a continuing decline in real industry revenue, at about 4.7% in 2010. Significant competition from satellite, cable, internet and postal linked movie delivery products will adversely affect industry operations during the year. Digital cable and satellite operators will also provide personal video recorder technology to subscribers which will contribute to the fiercely competitive environment of the industry. But Blu-ray technology will begin to emerge as will demand for compatible DVDs due to more frequent purchases by consumers of these players.

The story so far

Both legal video-on demand services through cable and satellite TV operators, as well as illegal movie downloads and video piracy, are having an impact on industry growth. Furthermore, a combination of the economic recession and associated turmoil caused by the subprime mortgage crisis is having an adverse impact on consumer sentiment and expenditure on discretionary items. As a result, growth in household disposable income was estimated to have significantly deflated household expenditure on both DVD rentals and purchases since late 2007. It is estimated that real industry revenue declined. Substantial industry restructuring also occurred, led by major company Movie Gallery as it works through Chapter 11 proceedings in the early part of the year (see Major Companies section). Penetration rates of DVD players in households increased strongly between 2005 and during 2007, as did the number of DVD titles; however both grew at slightly lower average prices than in the previous year. Subdued economic growth together with fewer rentals and some increased purchases of discounted DVD products are key trends estimated by IBISWorld to have led to a continued decline in real industry revenue. The industry continued to be adversely affected by increased competition from satellite, cable, internet and postal linked movie delivery. Personal video recorders and video-on-demand technologies were increasingly introduced by digital cable and satellite operators to their subscribers. To counter the impact of such external completion, major operators moved into internet movie downloads as well as offering DVD rental via postal delivery. In 2005, ongoing industry consolidation continued throughout the year with the two dominant operators Blockbuster and Movie Gallery estimated to have accounted for over 62% of total industry revenue. However, due to customer and market changes, by mid-2007 Movie Gallery announced that it was having significant financial and cash

flow difficulties and subsequently filed for Chapter 11 Bankruptcy Protection. Blockbuster reported reduced in-store rental revenue and a decline in overall revenue resulting in a net loss.

Blu-ray rises in popularity

This industry is in the declining stage of its life cycle proven by continuously low DVD rentals and sales by industry operators. VHS format was phased out in 2007 while DVDs became a more standard industry product. This significantly impacted on industry players in terms of revenue and profit growth. More households began to purchase DVD players, although DVD rentals grew slowly in the lead up to 2006 and fell slightly in 2007. Sell-through increased significantly to 2005 and slowed in 2006 before declining in 2007. Blu-ray HD discs are climbing as both sales of compatible hardware rise and the availability of Blu-ray releases from studios increases. Some studios are releasing DVD and Blu-ray combo sets for some movies in 2009, but also prices are shifting down as the recession hits sales.

Competition and consolidation

Increasing levels of competition poses great challenges for industry players. The competitive environment is expected to be fueled by other industries such as retailers and digital cable and satellite TV operators. Such external rivals offer similar video-on-demand or pay-per-view movie channels to consumers with movie release dates much more advanced than release dates to companies within this industry. Industry consolidation will result in further store closures. This trend coupled with a highly competitive environment will contribute to declining employment numbers over the five years to 2010. Industry employment is expected to decline at an average annual rate of 3.7% to 121,376 persons.

HISTORICAL PERFORMANCE

In the initial stages of this industry's existence, growth moved closely in line with VCR household penetration and the availability of movies for rental. In 1980, only 2% of households had video cassette recorders. By 1985, this share increased to 27.3 % and then to 70.2% by 1990. After this period, the household penetration rate continued to increase only slowly to reach 79.5% in 1995 and 86.2% in 2000. Since 1997 DVDs began to rise in popularity and penetrated 0.3% of households during the year then 12.7% by 2000. The availability of VHS and DVD playing technology together with reduced purchase costs, rapid increases in the household penetration rate for this equipment and increased availability of new and past titles in video cassette and DVD formats, all contributed to the establishment of this industry. Rising household disposable incomes and reduced rental prices also helped stimulate growth during the early stages. **Rapid growth**

During the 1980s, typical industry operation consisted of small, family owned and operated businesses. Over a few short years, larger and more professional groups of operators emerged with primary businesses centering on the rental of prerecorded video cassettes. This eventually led to the introduction of large franchised and company operated chains, many with international links, which could compete more successfully on product range and price. **Growth eases**
By the early 1990s, industry consolidation had commenced due to a combination of slower industry revenue growth, increased competition and the early 1990s economic recession. The recession is estimated to have reduced demand for rentals as consumer confidence fell and unemployment increased, leading to reduced growth in household incomes. The sell through market started to develop in the early 1990s. This was initially undertaken solely through video rental outlets, and had expanded into other retail stores by the end of the 1990s including music, supermarkets, department and discount stores. As the number of sales outlets increased, the price of the sell through product fell. Households also became used to purchasing their favorite titles and building a DVD library at home. As price-based competition increased, stores attempted to remain competitive by offering a greater selection and availability of tapes/DVDs. Average store sizes subsequently increased which added higher margins with complementary products such as food and drinks. Companies diversified into sell-through compact discs (CDs), video games, computer games and karaoke machines in order to cover more of the home entertainment market. Blockbuster stores in the US had also started to successfully sell magazines. Since the mid-1990s, the industry had to deal with another significant competitor with the emergence of digital cable TV operators. These rivals began offering improved product with significant increases in the number of channels and programming. **Early-2000s**

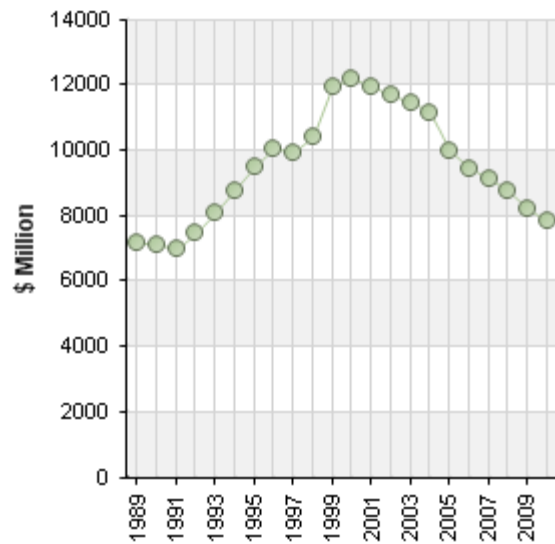
According to the Motion Pictures Association (MPA), the TV household VCR penetration rate increased to just over 86% during 2000 while the DVD penetration rate increased to 12.7%. The number of DVD players shipped in that year was almost 8.5 million, up from under a million in 1997. In line with this growth, rental DVDs shipped increased to 14 million together with 78.4 million video cassettes. The total number of DVDs shipped for rental or purchase from video stores, as well as other retailers, increased from 98 million to 182.4 million. The average price of a DVD title decreased from just over \$25 to \$22.65 and around 8,500 titles were released. The VSDA indicated that point of sale information and the total number of rental turns increased from 2,800 million in 2000 to 3,000 million in 2001 and fell to 2,930 million in 2002. Over this period, VHS turns decreased and DVD turns increased. While most of these rentals would have been through video rental stores, the majority of sell through units would have come from other retailers such as department and discount stores. Significantly slower economic growth from 2001 to 2003 was estimated by IBISWorld to have influenced greatly on the industry as competitive pressures increased. However, the total number of DVDs shipped either for rental or purchase from video stores as well as other retailers increased. The average price of a DVD title decreased further to under \$20.50 and the number of available DVD titles grew. Significant competition continued from other major retailers such as discount and department stores, particularly DVDs. By 2004, as economic conditions improved, the VCR penetration rate of TV households fell to around 90.2% during 2004 while DVD players achieved penetration by an estimated 59.7%. About 20 million DVD player units were estimated to have been shipped to dealers during the year and the number of DVD titles increased to around 40,000 titles at an average price of less than \$20.00. An estimated total of 1,518 million DVDs were shipped to dealers. Despite improved economic conditions, continued competition from retailers, growing household desire to buy new release DVD and changes in DVD release strategies by movie distributors, the industry experienced its fourth consecutive annual decline in real revenue of about 2.7%. However, the industry did benefit from increased rental and sales of games, although these tended to cannibalize rental revenue. Price-based competition continued to come from other retailers for DVD and VHS sales. Operators such as Netflix began offering monthly rental of DVDs where orders could be placed over the internet and delivered by post. This product proved very popular as no late fees and a monthly rental plan were on offer to consumers. Despite such initiatives, overall industry profitability and employment continued to be adversely affected by on-going consolidation of industry operators.

Revenue (constant prices)

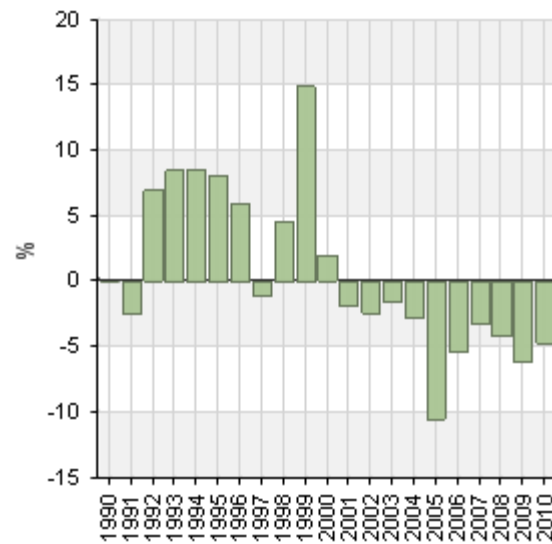
	Revenue \$ Million	Growth %
1989	7,164.0	N/A
1990	7,151.0	-0.2
1991	6,972.0	-2.5
1992	7,460.0	7.0
1993	8,094.0	8.5
1994	8,789.0	8.6
1995	9,498.0	8.1
1996	10,061.0	5.9
1997	9,951.0	-1.1
1998	10,408.0	4.6
1999	11,957.0	14.9
2000	12,200.0	2.0
2001	11,968.0	-1.9
2002	11,682.0	-2.4
2003	11,493.0	-1.6
2004	11,182.0	-2.7
2005	10,010.0	-10.5
2006	9,471.0	-5.4
2007	9,154.0	-3.3

2008	8,769.0	-4.2
2009	8,225.0	-6.2
2010	7,839.0	-4.7

Revenue



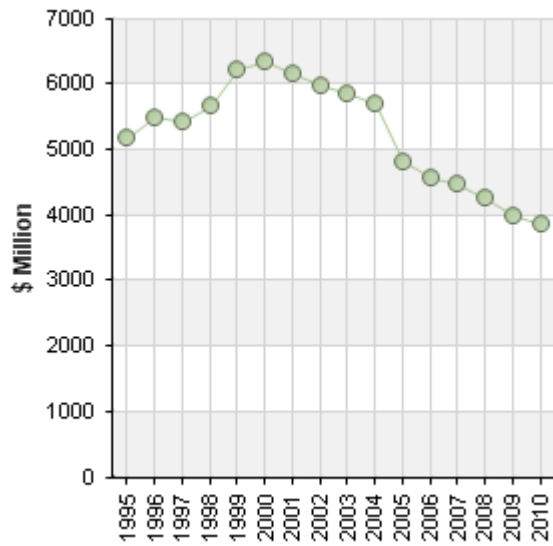
Revenue Growth Rate



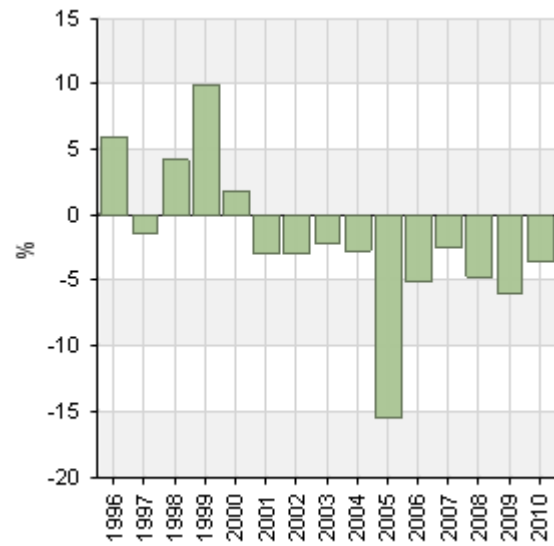
Gross Product (constant prices)

	Gross Product \$ Million	Growth %
1995	5,188.0	N/A
1996	5,501.0	6.0
1997	5,430.0	-1.3
1998	5,662.0	4.3
1999	6,228.0	10.0
2000	6,348.0	1.9
2001	6,163.0	-2.9
2002	5,987.0	-2.9
2003	5,860.0	-2.1
2004	5,702.0	-2.7
2005	4,824.0	-15.4
2006	4,583.0	-5.0
2007	4,468.0	-2.5
2008	4,258.0	-4.7
2009	4,003.0	-6.0
2010	3,863.0	-3.5

Gross Product



Gross Product Growth Rate

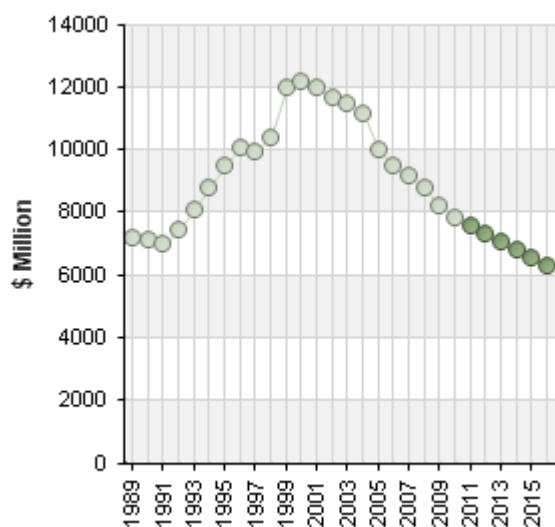


Outlook

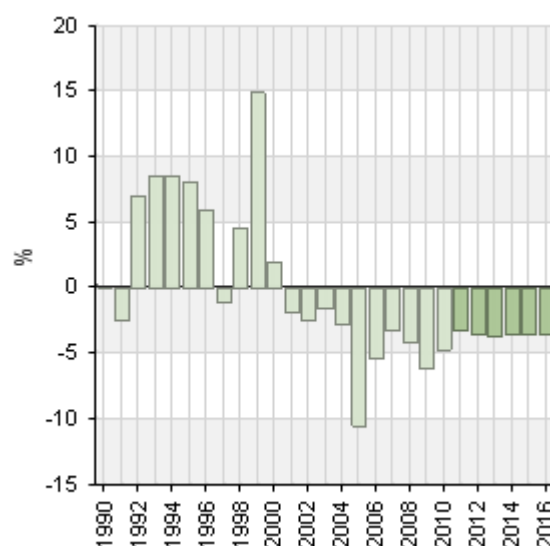
Revenue (constant prices)

	Revenue \$ Million	Growth %
2011	7,580.0	-3.3
2012	7,307.0	-3.6
2013	7,037.0	-3.7
2014	6,791.0	-3.5
2015	6,553.0	-3.5
2016	6,324.0	-3.5

Revenue



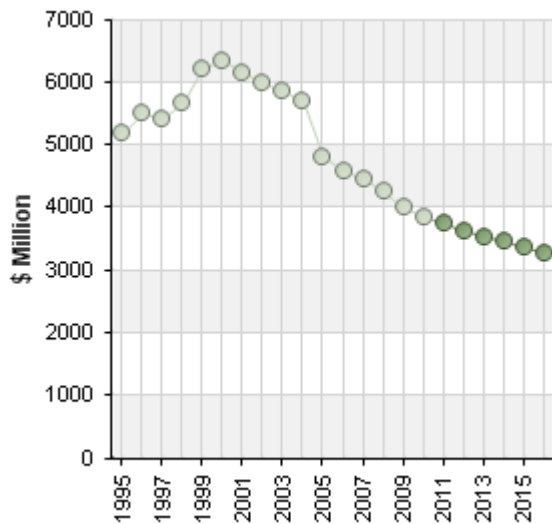
Revenue Growth Rate



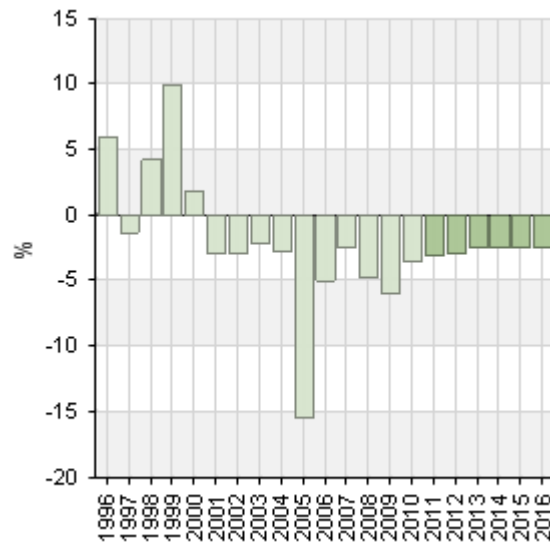
Gross Product (constant prices)

	Gross Product \$ Million	Growth %
2011	3,747.0	-3.0
2012	3,638.0	-2.9
2013	3,547.0	-2.5
2014	3,458.0	-2.5
2015	3,372.0	-2.5
2016	3,288.0	-2.5

Gross Product



Gross Product Growth Rate



To strike back at the technology invasion, DVD and Blu-ray rental stores will need to re-invent themselves. Many stores may aim to re-market with a more entertainment outlet focus. Without conforming in such ways, the industry may amalgamate with more general retailers such as music stores or quick service restaurants in order to offer a wider variety of products and services. Continuing changes in entertainment technology and products are expected to define the role of video retail stores in the future. A continuing decline in operator numbers is forecast as is a further fall in store numbers and employees alongside sliding real revenue. Increasing technological change and competition from other video-related technologies, such as digital cable services with video-on-demand and internet-based movie download sites, will contribute to an average annual decline in industry revenue over the five years to 2015. It is estimated that real industry revenue will fall at an average annual rate of 3.5%.

The years to come

Solid recovery in economic growth is forecast in 2011, with progressively more robust growth to 2015, which will provide a brighter operating environment for operators. However, demand for industry products and services will continue to cascade downward. In particular, competition from other retailers, new digital technology that allows for movie downloads on demand and illegal copying and piracy of movies are other factors anticipated to adversely affect industry performance. Significant competition will also be present from satellite, cable, internet and postal linked movie delivery products which will continue to adversely affect industry operations during the year. Digital cable and satellite operators will continue to provide personal video recorder technology to subscribers which will also increase competition. The acceptance of HD Blu-ray technology by households will now see more demand for compatible DVDs, as household penetration of these players increases. The industry is expected to continue declining from 2012 onward due to the same factors anticipated to affect performance in 2011. Increasing competition from external operators will be evident in terms of movie hiring, internet distribution, posting films and internet downloads to computers and iPods. DVD rental stores will have to reinvent themselves in order to remain competitive and changes will have to come about by implementing new technologies.

Competition for Blu-ray

Sales and rentals of HD Blu-ray format are forecast to grow during the next five years as alongside increased penetration of Blu-ray digital video recorders (DVRs). But this type of DVD will compete with new HD movie formats available on digital cable and satellite television as well as general digital broadcast television. Competitive advantages of such rivals

will include the use of personal video recorder programs that enable households to pause, rewind and record films and programs using an internal hard drive in their TV or a set-top unit that is linked to program distributors. Movie distributors will be able to more frequently gain direct access to households via movie and other entertainment products without the assistance of 'middle' retailers.

Industry structure

Some major operators have already diversified into providing movie downloads through the internet as well as movie rental and delivery by post. In order to remain up to date with consumer needs and to ensure financial viability, industry players will need to continue tapping into new forms of delivery as technology continues to evolve. New delivery formats may also lead to the demise of actual video retail stores in the longer term. By the end of the five years to 2015, it is expected that there may only be two or three major digital technology-linked national operators in this industry. Furthermore, only a number of medium-sized state and regional operators are anticipated to remain in the industry with fewer small players operating only in localized niche markets. Industry employment is anticipated to decline at an average annual rate of 2.5% to 106,725, due to the fall in revenue and profit and trends of increasing competition. Significant industry consolidation will also add to the decline in employees as such activity will bring about continuous store closures.